

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF CONTRACTING AND PROCUREMENT



Public Oversight Roundtable on
Office of the Inspector General Report No.: 19-I-03PO
“District-Wide Participation in the Surplus Property Program Could Be Improved”

Testimony of
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Before the
Committee on Facilities and Procurement
The Honorable Robert C. White, Jr., Chairman
Council of the District of Columbia

John A. Wilson Building
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Good afternoon, Chairman White, and members of the Committee on Facilities and Procurement. I am George Schutter, the Chief Procurement Officer (CPO) of the District of Columbia and Director of the Office of Contracting and Procurement (OCP). I am pleased to offer testimony on the Inspector General's Report, No. 19-1-03PO, *District-Wide Participation in the Surplus Property Program Could Be Improved*.

I would like to begin by conveying my appreciation to Inspector General Lucas for his independent review of the District's surplus property program's controls and procedures, as well as his adherence to the highest standards of integrity and professionalism. Thank you, sir.

SURPLUS PROPERTY IN THE DISTRICT

Before I comment on the specific recommendations and findings in the Inspector General's report, I think it is important that the Committee be provided the background and programmatic information it needs to have a complete view of the District's surplus property program.

The mission of the surplus property program is to “ensure the equitable and appropriate redistribution and disposal of the District of Columbia and federal personal property to District agencies and eligible nonprofit organizations.” To this end, the Surplus Property Division (SPD)—the branch of OCP charged with running the program—serves District government agencies in three capacities: (i) managing and disposing of agencies' surplus property; (ii) providing agencies access to other District agencies' surplus property; and (iii) providing agencies access to, and coordinating receipt of, federal surplus property.

These core competencies did not develop overnight. Rather, resources were focused on the design of the program and building the administrative infrastructure needed to ensure the programmatic success. The SPD developed standard operating procedures, conducted trainings

for Certified Business Enterprises, designated and trained agency property officers within District government, and began forming relationships with both internal and external stakeholders. Rules covering the disposition of surplus property were promulgated in 2013, and remain in effect across all District agencies that are subject to the Procurement Practices Reform Act of 2010 (PPRA). Surveys of the surplus programs in other jurisdictions, as well as that of the federal government, were taken and best practices adopted therefrom. Internal controls and an electronic inventory control system were also integrated into the program, and an online auction platform enabling the public to bid on a wide range of surplus items. In short, OCP created a surplus property program enabling the SPD to effectively manage District property through its entire lifecycle, including the centralized, environmentally-conscious disposal of end-of-life products, and reutilization of assets across District agencies.

The results of these efforts, Mr. Chairman, I believe speak for themselves. As the Inspector General's Report noted, online auction sales have generated an average of \$4 million per year in revenue for the District; almost \$33 million in total since the program started. What the Inspector General's Report did not mention, however, was that over the last seven years, the reutilization of surplus property in the District provided an additional \$33.2 million in cost avoidance.

The surplus property program also provides direct and tangible benefits to District residents. Through our partnership with the federal General Services Administration, over 150 local non-profit organizations have become eligible to receive surplus property from the federal government via OCP. These organizations include: veterans' groups; civil rights organizations; and other community-based non-profits. This aspect of the surplus property program was also absent from the Inspector General's report.

The focus of the SPD now shifts from program creation and implementation to scaling and streamlining operations to maximize revenue and cost savings, thereby obtaining the maximum benefit for District taxpayers. The scaling of the program involves increasing outreach, expanding programs, and performing quality assurance. As the report covers some of these topics, I would now like to address the recommendations put forth by the Inspector General.

THE INSPECTOR GENERAL’S REPORT

The stated goal of the report was to assess: (1) “OCP’s controls and procedures for safeguarding, marketing, selling, and disposing of surplus District government property,” and (2) “District agencies’ use of the program.” Those two components are necessary for the program’s overall success when we view it strictly in terms of government operations. The surplus property program, however, should also be measured in terms of results—that is, the cost savings, the revenue generation, and the direct benefits to District residents. The operations of the surplus property program cannot be divorced from the results it achieves—program operation leads to results, the results then inform program operation. Having too narrow a focus on particular aspects of the surplus property program risks creating unnecessary administrative processes. This is why I believe the Inspector General’s report should be read in the context of the results of the program.

The first four recommendations of the report speak to the structure of procurement authority in the District. Generally speaking, an agency can be subject to the CPO’s authority and the PPRA, an agency can be independent of the CPO’s authority but still subject to the PPRA, or an agency can be exempt from both the PPRA and the CPO’s authority.

Recommendation 1: Work with the Executive Office of the Mayor to issue written guidance that outlines OCP's authority and responsibilities, and agencies' obligation to involve OCP's SPD in the disposition of surplus District property.

As was stated in OCP's response to this recommendation, OCP has already issued clear guidance to all District agencies that fall under the CPO's authority. OCP promulgated surplus property regulations, which can be found in Title 27, Chapter 9 of the District of Columbia Municipal Regulations. Additionally, OCP distributes a memo to each agency director requesting designations of such agency's accountable property officers, provides training, and holds an annual Property Officers' Summit.

During FY 2018, for instance, the Department of Insurance Security and Banking, and the Office of the State Superintendent for Education, relocated from their former spaces at 810 First Street. Eight floors of District-owned equipment and furniture required disposal. The complete move lasted several months and involved several phases for relocation. During this time, the SPD coordinated efforts to begin reutilization, recycle, and disposal efforts. Twenty-nine agencies received property, while the District gained \$25,000.00 in sales via GovDeals and saved the District \$1,021,373.00 in costs. This example highlights how the SPD works with agencies under the CPO's authority.

Recommendation 2: Update the content on ocp.dc.gov to more prominently and effectively publicize OCP's authority and agencies' obligations regarding the disposition of surplus District property.

OCP currently issues prominent and effective guidance to agencies on OCP's intranet site, which is accessible to other District agencies. In FY 2019, 88 percent of District agencies turned in property to the Surplus Property Division, while 54 percent of agencies received property.

Recommendation 3: Request each agency subject to the PPRA but independent from the CPO's authority enter into a surplus property disposition agreement with OCP.

Section 801 of the PPRA requires that the CPO shall issue rules governing (1) the management of goods during their entire life cycle and (2) the sale, lease, disposal, or transfer of surplus goods by public auction, competitive sealed bidding, competitive electronic sales, or other appropriate method designated by rule; provided, that no employee of the disposing agency shall be entitled to purchase any surplus goods. Accordingly, the PPRA and the regulations promulgated by OCP makes it clear that OCP is responsible for distribution of District surplus property for all agencies subject to the PPRA, even though they may be exempt from the CPO's procurement authority.

Recommendation 4: Request each agency exempt from both the PPRA and the CPO's authority enter into a surplus property disposition agreement with OCP.

I do not believe it is necessary to enter into a surplus property disposition agreement with each agency exempt from the PPRA and the CPO's authority, as OCP is in regular communication with these agencies regarding surplus property. Requiring OCP to enter into a property disposition agreement with all agencies exempt from the PPRA and the CPO's authority is, in my opinion, unnecessary, and would place an undue administrative burden on OCP. In certain unique circumstances where it is necessary to document the chain of custody or unique origin of certain assets, OCP will enter into a surplus property disposition agreement with the affected agency. However, I do not believe this as necessary in the general course.

One example of how OCP works with these agencies is a request for dormitory furniture at the University of the District of Columbia (UDC). The SPD, in partnership with GSA, was able to acquire dormitory furniture from the housing and barracks division at Ft. Myer Army Base in Arlington, Virginia, and transfer those assets to the UDC Resident Life Division for use by

students. The cost savings to the District was \$251,000.00.

Another example involves the renovations of the District's Martin Luther King Jr. Library. During the renovations, close to two hundred library employees required relocation. Utilizing resources with our partnership established with GSA, the SPD was able to acquire workstations from the Federal Nuclear Regulatory Commission's facility in Rockville, Maryland. The workstations not only met the needs of the transitioned employees, they also saved the District \$1,659,668.00 in costs.

Recommendation 5: Enter into a surplus property disposition agreement with each entity served under OCP's contract with GovDeals.

I do not believe it is necessary to enter into agreements with each entity served under the GovDeals contract. GovDeals and OCP are the contracting parties under the GovDeals contract and OCP actively manages and directs GovDeals in the administration of the contract. Under the GovDeals contract, OCP operates accounts based on the property type being sold. The property associated with each account and the District agency of origin for such property is tracked by OCP. Assets in each account are treated similarly without regard to which agency such assets originate from. The terms of the GovDeals contract applies to all activities thereunder regardless of which agency the assets originate from. The GovDeals contract is available to all District agencies participating in the program. In addition, OCP provides guidance regarding the GovDeals auction platform in OCP's Surplus Property Procedural Manual.

Recommendation 6: Document the auction revenue verification process cited in the GovDeals contract.

Regarding OIG's specific concern regarding the GovDeals contract requirement that the Contract Administrator (OCP) audit and approve the revenue amount prior to the Contractor

wiring funds or remitting a check, OCP will work to incorporate this requirement in its operations. OCP has hired a Measurement and Policy Analyst responsible for conducting weekly reviews and analyzing transactional data to ensure that all deposits from contractors to the District are accurate and timely, and escalate any discrepancies to the Chief Property Officer.

Recommendation 7: Request the Office of the Chief Technology Officer provide OCP an assessment of the SPD's data destruction practices and ensure they comply with the PPRA and industry standards.

Recommendation 8: In coordination with OCTO, implement a plan to increase awareness and improve data destruction practices at District agencies.

OCP has a strong, well-established relationship with OCTO regarding data destruction practices. The current SPD data destruction practices were, for instance, put in place in consultation with OCTO, pursuant to industry standards. Our strong relationship with OCTO also led to the creation of OCP's Data Destruction Center. OCTO technicians were on-site at OCP's Adams Place warehouse to provide guidance on industry standards for data centralized property disposal documentation software, and provided a demonstration of the full life-cycle of asset tracking and disposal. Thus, I support OCTO's leadership in overseeing, implementing and improving these policies and practices for District government.

Recommendation 9: Evaluate an increase in the District's buyer's premium rate, to fully offset the fees the District pays to GovDeals.

OCP regularly evaluates the buyer's rates to determine what fee structures would bring maximum asset recovery for the District as part of our disposal processes. This year additional market research is being evaluated and OCP will make adjustments, if needed, as part of the contract renewal and option execution process.

Recommendation 10: Coordinate with the Office of the Chief Financial Officer (OCFO) to determine whether sales tax could be applied to online auction sales.

OCP already coordinates with the Office of the Chief Financial Officer (OCFO) on SPD sales. Both agencies have engaged in discussion concerning sales tax and administrative fees for surplus property auctions and will continue those conversations and engagements to help determine what changes, if any, should be made and the best approach to achieve a favorable outcome for the District. For example, regarding sales tax and automobile sales, which make up a very large percentage of surplus property auctions, OCP and OCFO determined that since the buyers pay tax on the vehicles at the time of registration, the District may not be able to collect a sales tax at the point of auction closing. Regarding applying administrative fees to surplus property auctions, OCP has determined that there will be a cost in administering such a fee, which will include modifying the auction platform to incorporate the fee as well as the administrative costs of physically collecting, accounting for, and providing compliance oversight of the fees applied and collected. Thus, the cost of administering a fee may negate any perceived revenue increase.

CONCLUSION

While I am proud of the achievements the surplus property program has achieved over the past few years, whether measured by the millions in revenue generated for our city, the direct support it has provided to local non-profits, or by its efficient, transparent reutilization of District property, we can always strive to do better. I take the Inspector General's report and its recommendations seriously. I appreciate opportunities such as this because it empowers us to push the program to serve the needs of the District even better than it does today.

Thank you, Chairman White for the opportunity to testify before the committee. I would be happy to answer any questions you may have.